UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS International General Certificate of Secondary Education

# www.papacambridge.com MARK SCHEME for the May/June 2011 guestion paper

# for the guidance of teachers

# 0455 ECONOMICS

0455/22

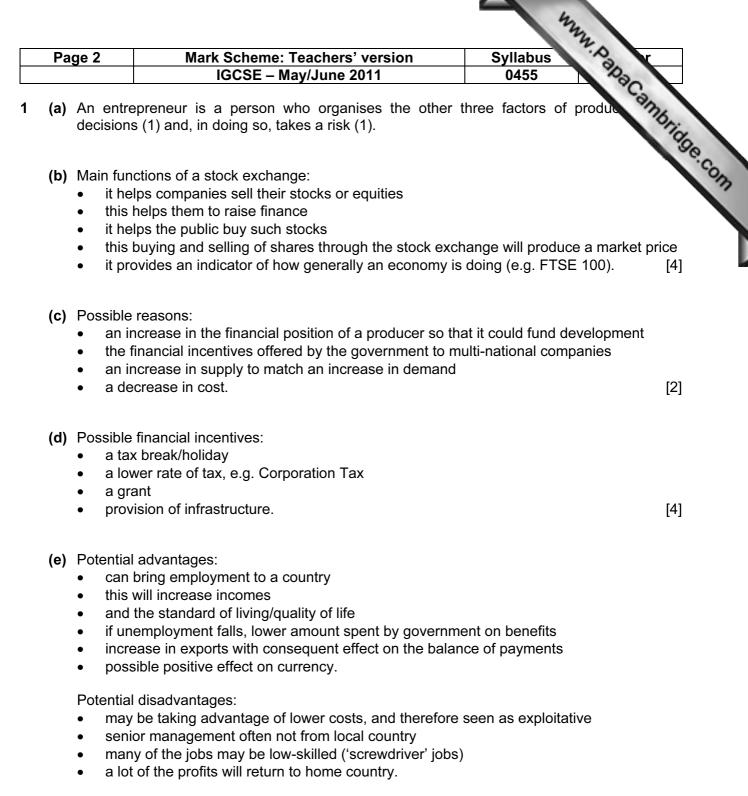
Paper 2 (Structured Questions), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

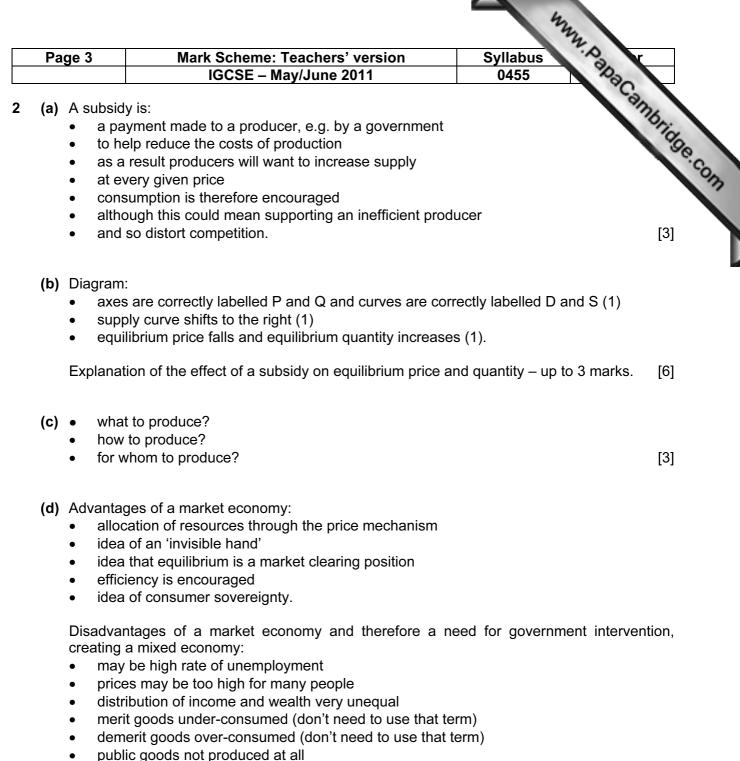
Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



A maximum of 5 marks if the answer is one-sided.

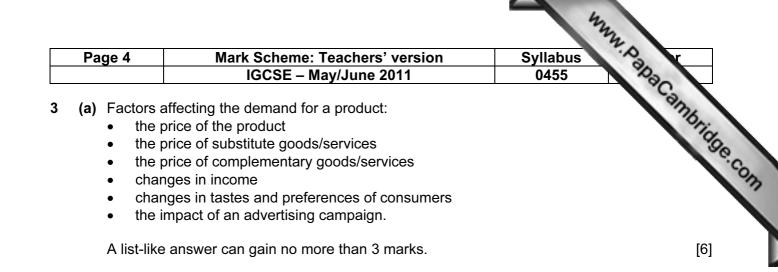
[8]



- issue of externalities
- problem of lack of competition, e.g. as a result of monopoly
- need for consumer protection legislation.

A maximum of 7 marks if no conclusion is given.

[8]



- (b) Explanation of PED:
  - percentage change in the quantity demanded of a good or service divided by the percentage change in the price of the good or service
  - different values from perfectly elastic, through elastic, unitary elastic, inelastic to perfectly inelastic

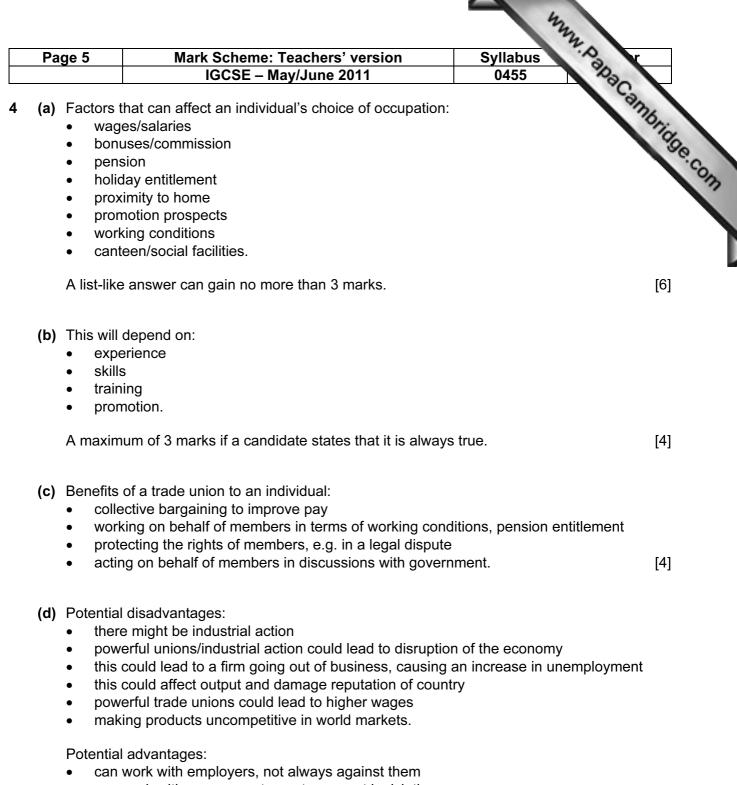
[6]

- explanation of mathematical figures for these from 0 to infinity.
- (c) Potential usefulness:
  - link with revenue
  - if PED is elastic, it would be better to reduce price to raise revenue
  - if PED is inelastic, it would be better to increase price to raise revenue.

## Application:

- the demand for many magazines will be elastic
- the demand for some magazines, however, will be inelastic
- these will be the more specialised magazines, appealing to more of a niche market
- some consumers might take out a regular subscription to a magazine, and here the demand is likely to be more inelastic compared with buying magazines in a shop.

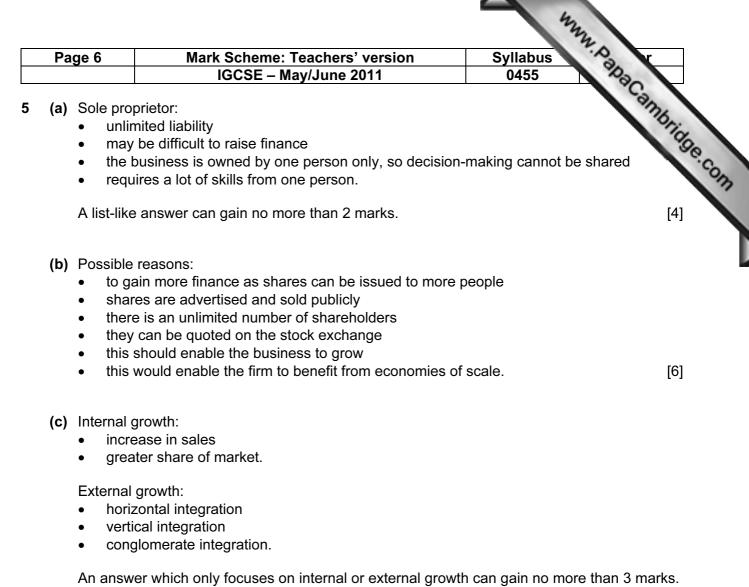
Answers which discuss the potential usefulness of PED to firms in general, making no reference at all to magazines, can gain no more than 5 marks. [8]



• can work with government, e.g. to support legislation.

A maximum of 4 marks if entirely one-sided.

[6]



[4]

## (d) Economies of scale:

- internal, e.g. technical, marketing, financial, risk-bearing economies
- external, e.g. available infrastructure, pool of skilled labour, local suppliers.

Diseconomies of scale:

- internal, e.g. poor communications, low morale
- external, e.g. congestion, higher transport costs.

Advantages of small firms:

- cater to tastes and preferences of consumers
- greater flexibility.

A maximum of 4 marks for a one-sided answer.

A maximum of 2 marks for an answer which focuses purely on economies of scale. [6]

|        |                                |          | 2. |   |
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Cambridge.com 6 (a) Inflation can be defined as a persistent/sustained (1) increase (1) in the general/a level of prices (1) over a given period of time (1). An answer which focuses on the de the purchasing power of money can gain no more than 2 marks.

There must be some reference to prices to gain all 3 marks.

- (b) Construction of RPI or CPI:
  - selection of a representative basket of goods and services
  - selection of base year
  - this is given a value of 100
  - allocation of weights to particular goods and services to reflect relative importance in basket
  - idea of changes in the overall weighted average price of basket over a period of time. [7]
- (c) Demand-pull inflation:
  - too high a level of demand in the economy
  - supply unable to meet demand.
- (d) Credit appropriate comment on a high rate of inflation.

Reasons for concern:

- leads to a fall in the purchasing power of money •
- may undermine confidence in the currency
- rise in export prices may make goods uncompetitive abroad
- those on fixed incomes particularly badly affected
- value of savings could be eroded.

Not such a problem:

- could lead to higher profits for firms
- may encourage firms to expand
- borrowers may benefit.

A one-sided answer can gain no more than 4 marks.

[6]

[4]

|        |                                |            | 2.   |
|--------|--------------------------------|------------|------|
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- changes in real (1) GDP (1) per capita (1) 7 (a) •
- Cambridge.com changes in the Human Development Index which is made up of one-third stand living (real GDP per capita), one-third longevity (life expectancy) and one knowledge (adult literacy and mean years of schooling).
  - (b) Possible problems:
    - hidden/underground economy
    - issue of what is being produced (e.g. luxuries versus necessities)
    - environmental consequences of production
    - distribution of income and wealth
    - other possible factors, e.g. class sizes, number of patients per doctor, quality of water. [6]
  - (c) Possible policies in relation to:
    - fiscal policy
    - education
    - housing
    - minimum wage
    - health/diet
    - increased food production
    - irrigation
    - sanitation
    - birth control
    - aid
    - change in balance of industrial sectors.

Candidates need to offer a conclusion as to whether such policies are likely to reduce poverty to get a mark above 5. [8]